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SOVIET STAFF STUDY

SOVIET ORBIT DEVELOPMENTS

JANUARY - NOVEMBER 1954

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SOVIET STAFF STUDY

This study is a working paper prepared by the Soviet Staff, OCI, FOR INTERNAL DISSEMINATION ONLY. It represents an effort to identify and assess the character of the major trends in recent Soviet Orbit affairs. It is designed solely to assist Soviet Staff analysts in developing a common appreciation of the background against which to view current intelligence in the Soviet field.

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SOVIET ORBIT DEVELOPMENTS (January-November 1954)

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INTRODUCTION

The following analysis of the USSR's major foreign, internal and Orbit policies during the past year, together with recent expressions of the prevailing mood of the top Soviet leadership, suggests a general orientation of Soviet thinking and action around the recognition that general war fought with nuclear weapons would involve unacceptable military and political risks for the Soviet Union, that Stalinist pressures had driven the non-Communist world to unite and rearm, and that Stalin's policies had resulted in serious weaknesses in certain sectors of the Soviet economy which are vital for the further over-all development of Soviet power. Soviet policy planning in all major fields appears to rest on these fundamental strategic premises.

Malenkov referred last March to the possibility of the "destruction of world civiliazation" in a general war, not just the collapse of capitalism, and the prominent Soviet economist Varga recently declared that "peaceful competition" between Communism and capitalism must not be allowed to develop into World War III, which would threaten the destruction of the human race. At the Moscow reception commemorating the October revolution, Malenkov stressed to Ambassador Bohlen the USSR's "serious and sincere" desire for "peace and normal and good relations with all countries." While such declarations probably contain a goodly amount of hyperbole, they nonetheless afford an insight into the general mood and cast of thought of the Kremlin leaders.

The outward manifestation of this basic trend in strategic thinking is evident in Soviet foreign policy, which reflects the abandonment of outright military pressures and heavy-handed methods of expanding the areas of Soviet influence and control in favor of a return to the more traditional methods of diplomatic maneuver among nations and political infiltration through local Communist organizations within non-Communist countries. The Soviet leaders are trying to ensure that there will be what they call a "prolonged period of peaceful coexistence" with the Western world during which the danger of general war would not be great and Western apprehensions regarding Soviet expansionist inclinations could be allayed.

In terms of policy planning, Soviet leaders seem to be preoccupied with long-range consolidation and strengthening of the Communist bloc within its present frontiers rather

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than the extension of this empire by military action or outright attempts by foreign Communist parties to seize governmental power. This Soviet outlook appears to apply to both the Eastern European and Far Eastern areas of Communist control. As long as the present Soviet strategy continues, the USSR can be expected to use its influence and bargaining power in order to deter other Communist states, particularly China, from initiating any action that could not be localized or that appeared clearly to involve substantial risk of general war. In the Soviet view, cumulative Communist power will eventually turn the balance of world power against the West and open up new opportunities for outward thrusts from present frontiers.

The top leadership seems to be going through a period of relative stability, even though there are occasional signs of differences of view over execution of policies. The principle of collective leadership has been strictly enforced throughout the party hierarchy, and the Kremlin is making a major effort to strengthen and invigorate the Soviet political system by moving to limit "bureaucratic" leadership and encourage honest, efficient, and imaginative direction on all levels. While the new leaders have displayed a more flexible approach to problems of domestic and foreign policy than did Stalin, Marxist-Leninist ideology still has an important and is some cases determining influence on their actions and thoughts.

Current domestic economic policy has deeply committed the Soviet regime to expanding production by introducing new incentives measures to raise labor productivity. The 1954 budget revealed a leveling-off of military expenditures and a renewed emphasis on long-range economic developement and investment, combined with vigorous measures to carry out the program for increased agricultural and consumers' goods production. The new emphasis on boosting agricultural output and light industrial production and the leveling-off of military expenditures are economic policies that probably would not have been adopted if the Soviet planners anticipated an imminent increase in international tensions.

Moscow's military planning is similarly oriented toward the long haul. The budget allocation this year for maintenance and equipment of the armed forces, although about ten billion rubles below the amount allocated in 1953, appears adequate to maintain the military establishment at its present strength. Moreover, since it is likely that

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the 1953 defense allocations were underspent and even fell slightly below the 1952 level, the smaller budget allowance for 1954 probably does not represent a significant reduction from actual 1953 outlays.

The emphasis in military planning is on the steady strengthening of military capabilities, in particular the improvement of weapons, rather than on the mobilization of forces. In general, military policy in the last year has been characterized by a stabilization of announced expenditures, personnel strengths and disposition of forces. The scope of the current naval construction programs, however, indicates an intensive strengthening effort.

The past year has witnessed changes in Soviet-Satellite control relationships which likewise point to long-term stabilization and consolidation. Satellite leaders apparently are committed to continuing their "new course" policies aimed at increased consumer benefits until 1960, and Moscow has been moving toward greater relaxation of direct control and toward granting the captive states at least the appearances of greater autonomy. The Soviet leaders would hardly have adopted this course if they were contemplating any need to execute a drastic tightening of the means of control to support expansionist plans or to resist a Western challenge.

It has been the task of Soviet diplomacy during the past year to bring about the atmosphere and conditions in international relations essential for the execution of these long-range internal and Orbit programs.

The foremost objective of Soviet foreign policy during this period was to prevent the incorporation of a rearmed West Germany in the Atlantic alliance. Soviet diplomacy during the first eight months of the year was therefore chiefly preoccupied with the effort to defeat the EDC. At the same time Moscow undertook parallel measures to improve its relations with those countries immediately adjacent to the Orbit and to reduce the dangers of Soviet involvement in a general war by easing world tensions. These measures were accelerated after the London and Paris agreements, which represented a major setback for Soviet diplomacy. The Soviet leaders have now turned their attention to preparing their position to meet the situation after the agreements take effect. This was the background of the Orbit security conference in Moscow at the end of November called to lay the groundwork for an eastern security system to counterbalance the augmented power of NATO.

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A REVIEW OF SOVIET FOREIGN POLICY--JANUARY-NOVEMBER 1954

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The opening of the Berlin conference on 25 January 1954 marked the end of the preparatory stage and the beginning of the action stage of the Malenkov regime's drive to shatter the Western coalition. The pattern of Soviet foreign policy, particularly as it was revealed by Molotov's actions at the Berlin and Geneva conferences and in Soviet moves to block ratification of the London-Paris accords, indicates a belief on the part of the Soviet leaders that the crucial decisions in the present phase of the East-West struggle will be made in Europe and that Germany remains the center of the conflict.

The corollary of this emphasis on European problems in the period under review was the subordination of Soviet-Communist interests and objectives on the most active Asian front--Indochina--to the demands of European policy. These demands governed Molotov's tactics at the Berlin conference and resulted in Communist willingness at the Geneva conference to sacrifice immediate military gains in Indochina to bring about a cessation of hostilities.

Objectives and tactics

The immediate objective of Soviet foreign policy during the period was to prevent the strengthening of the Western alliance by the integration of a rearmed West Germany; the longer-range objective was to isolate the United States from its major allies and, in this way, to disrupt the whole structure of Western defense. In pursuit of these objectives, the Soviet leaders concentrated their campaign on what they apparently regarded as the most vulnerable points in the West's position: (1) the overwhelming desire in France for an end to the Indochina war; (2) Western European, particularly French, fears of a rearmed Germany; (3) the fact that the West's defense structure and German policy were predicated on the indefinite continuation of the division of Germany; and (4) widespread fears, particularly in Western Europe, of a general war fought with nuclear weapons.

One of the Communists' primary propaganda methods for capitalizing on these vulnerabilities was to emphasize "peaceful coexistence." Moscow encouraged non-Communist nations to believe that continued strengthening of alliances around the Soviet Orbit was not necessary, that courses of action at variance with American policies would enhance national interests,

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that small powers adjacent to the Soviet Orbit would be permitted to maintain their independence, and that Satellite states were being allowed to emerge from under Moscow's domination. Soviet strategy also suggested the actual meaning of "peaceful coexistence" for the USSR, that is, the avoidance of a general war and of irretrievable involvement in explosive local situations, accompanied by a refusal to retreat from the present frontiers of the Soviet Orbit. Malenkov and other top leaders spoke increasingly frankly during this period of the threat to world civilization of a war fought with nuclear weapons.

Exploitation of French weaknesses

Moscow obviously proceeded on the assumption that France was the weakest link in the Atlantic alliance and the most vulnerable on the question of German rearmament. The USSR, therefore, launched an offensive to induce France to break with American policy on German rearmament and integration, and eventually to detach France from the Atlantic alliance.

The USSR's policy aimed to make France serve as the main instrument of Soviet attempts to erect an insurmountable barrier to West German rearmament and integration. The Soviet leaders were compelled to follow this course of action because they were both unwilling and unable to grant the concessions that would be necessary to block German rearmament and integration by serious negotiations with the three Western powers.

The Berlin conference

Molotov displayed no intention of seriously negotiating settlements for either Germany or Austria at Berlin. His principal tactic was to evade concrete discussion of the details of a German settlement by using the conference as a forum for addressing appeals and sounding warnings to the French and West German people. His plan of attack focuses on the two most vulnerable points in the West's position at Berlin: France's fear of a rearmed Germany and its overwhelming desire for an end to the Indochina war. He made substantial concessions to reach an agreement to convene the Geneva conference, apparently on the assumption that the very fact of the agreement to discuss Indochina would deter the French from ratifying EDC in the interval.

Molotov's Berlin proposal for a European collective security system was intended to provide French and other opponents of German rearmament with an alternative to EDC. This

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proposal tacitly wrote off any settlement of the German problem for an indefinite period, thus confirming the division of Germany.

After the Berlin conference, the leaders of the Soviet bloc pressed the course of events toward an early showdown on Indochina and EDC. As the Geneva conference approached, the Communists intensified their pressure on Paris by increasing propaganda to stir up anti-French feeling in North Africa, by launching,on 15 March, the first phase of the Viet Minh's final assault on the fortress of Dien Bien Phu, and by sending Viet Minh forces into Cambodia for the first time on 1 April. This growing pressure appears to have been aimed at bringing about the replacement of the Laniel government by a regime willing to end the war at almost any price, and, even more important, to introduce a major reorientation in French policy in Europe. The fall of the Laniel government on 12 June marked the climax and success of this drive.

The Geneva conference

This objective governed the tactics of the Communist delegations at Geneva during the first month of talks on Indochina. They attempted to discredit Bidault's conduct of the negotiations and to turn the French public against the government's Indochina policy. They adopted an unyielding attitude and made no essential change in their basic position on Indochina, which was deliberately made unacceptable to Bidault. Meanwhile, the Viet Minh forces pressed their final assault on Dien Bien Phu and the outpost fell on 7 May. Molotov appeared confident that the fall of the fortress, together with the growing Viet Minh strength in the Tonkin delta and the continued intransigence of the Communist negotiators at Geneva, would eventually generate enough pressure to sweep Laniel and Bidault from power.

The climax of the Communists' pressure tactics was carefully timed to coincide with the crucial debate on Laniel's Indochina policy in the French assembly in early June. The government's only chance for survival rested on Bidault's bringing back from Geneva some prospect for an Indochina cease-fire. Molotov timed his 8 June speech to shatter this hope. The terms he proposed were virtually the same as the maximum terms first advanced in early May. The effectiveness of this maneuver was indicated when Bidault dryly remarked during the assembly debate on 10 June that "Molotov was an extra interpellator in this debate." On 12 June, although the vote against Laniel fell short of an absolute majority, the premier was forced to submit his resignation.

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This was followed by an abrupt shift in Communist tactics at Geneva. When it became apparent that Mendes-France was ready to make his bid for investiture, the Communists introduced concessions intended to strengthen his bid. On the following day, 17 June, the assembly confirmed Mendes-France as premier, with the Communist deputies casting their first vote in support of a French government since 1947.

The Soviet reaction underscored the great significance Moscow attached to these events and its hope that the emergence of Mendes-France would lead to a radical shift in France's European policy. The Soviet leaders appeared to see in the fall of the right-center government of Laniel and Bidault a turning point in postwar European politics which would open to Soviet diplomacy a growing field for maneuver.

With Mendes-France's 20 July deadline putting the issue squarely up to the Communist delegates at Geneva, Molotov and his allies agreed in last-minute negotiations to a number of concessions which made possible the conclusion on 21 July of three Indochina cease-fire agreements as well as a declaration of political principles.

Post-Geneva efforts against EDC

Following the conference, Communist propaganda used the Geneva accords to show the feasibility of negotiations and coexistence with the Soviet bloc. With an eye to the forthcoming French assembly debate on EDC, Moscow sent notes on 24 July to the Big Three in which it proposed calling within the "next few months" a European conference to consider Molotov's offer of a European security pact. These notes were followed by a call on 4 August for four-power talks on Germany.

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Following the French assembly's rejection of the EDC treaty on 30 August, the Soviet Foreign Ministry on 9 September issued a statement which hailed this as a "profoundly patriotic act," reiterated the USSR's desire for a "strong and independent France," and argued that France would be reduced to the role of a second-rate power if Germany were allowed to rearm. This statement made it clear that the Soviet government would continue to rely, at least for the present, on France as the principal means of blocking West German rearmament. Moscow, however, tempered its satisfaction over the demise of EDC with a warning that the task of preventing West German remilitarization was far from completed.

The Soviet leaders may well have expected that the defeat of EDC would be followed by months of confusion and recrimination within the Western world. They appeared to believe that they could rely on public pressure in Western Europe to force changes in official policies regarding Germany and could stimulate this pressure simply by continuing verbal support of a four-power conference on Germany, a European collective security system, and settlement of the armaments problem.

The London-Paris accords

The Soviet government was apparently surprised by the prompt and far-reaching agreements achieved at the nine-power London conference (28 September to 3 October). The USSR probably hoped that Vyshinsky's carefully timed disarmament proposals in the United Nations on 30 September would disrupt the conference. That these proposals were addressed primarily to France was evident in Molotov's action in giving an advance copy of the plan to the French ambassador the day before Vyshinsky's speech. The Soviet foreign minister's accompanying remark that "account must be taken of the German problem" was an obvious hint that disarmament talks would provide a convenient pretext for postponing final agreement to rearm Germany.

The Soviet leaders reacted promptly and dramatically to the London agreements. Two days after the end of the conference, Molotov flew to Berlin to deliver a speech at the celebration of the fifth anniversary of the founding of the German Democratic Republic. He followed this with a week-long tour of East Germany. These unprecedented gestures emphatically reaffirmed Moscow's continuing support of the East German regime in the face of Western decisions to rearm West Germany and bring it into NATO. Molotov's speech warned the West Germans that they faced a fateful choice. "If West Germany is incorporated in aggressive military

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alignments," he declared, "the German nation will remain partitioned for a long time to come."

In this speech, Molotov also tried to give the impression of greater flexibility on German questions by stating that the USSR was ready to discuss "both the problems brought up earlier by the participants at the Berlin conference as well as any new proposals which may be made on the problem of free, all-German elections."

The relative caution of Molotov's attacks on the London agreements probably reflected a recognition that the chances of sabotaging them were considerably less than in the case of EDC. Moscow failed to advance any new substantive proposals in the crucial period between the London and Paris conferences which might have upset the London decisions and forestalled final agreement at Paris on 23 October. This display of Soviet inaction furthermore was impressive evidence of the immobility and sterility of Soviet policy toward Germany. On 23 October, a few hours after the protocols had been signed in Paris, Moscow made a belated and ill-timed effort to counter the Paris conference by sending a note to the Western powers proposing a four-power conference in November. The main purpose of this note appears to have been to attempt once more to create the impression that the Soviet attitude on German questions would be different from what it was at the Berlin conference if the London-Paris agreements were not put into effect.

The Orbit security conference

Moscow reacted to the Paris accords by addressing a proposal on 13 November to all the European countries with which it has diplomatic relations and to the United States and China calling for a conference on European collective security to be held in Paris or Moscow on 29 November.

Following the West's prompt rejection of this proposal, Molotov offered in a Pravda "interview" on 20 November to postpone the European security conference if the West would delay ratification of the Paris agreements. This move was apparently intended to provide additional justification for convoking the Orbit security conference in Moscow.

The USSR's underlying purpose in convening the Orbit security conference in Moscow on 29 November was to prepare to meet the situation following ratification. In opening the conference, Molotov warned that if the Western powers

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ratify and implement the Paris agreements, the Soviet bloc will be "compelled to take effective measures for self-defense, for the prevention of attack" and suggested that the participating states "carry out joint measures in organizing the armed forces and their command." The second principal theme of this meeting was reflected in Molotov's statement that the conference "would be an important stage in establishing a system of collective security." Premier Grotewohl of East Germany warned that if a West German army were formed, East Germany would be obliged to "create national armed forces," but this statement was not included in the final declaration. The declaration issued on 2 December was cast in vague and general terms, apparently in order to permit the Soviet government relative freedom of action.

The failure of the Moscow conference to produce any new proposals on Germany, Austria, or European security which might have created difficulties in the ratification process in Paris and Bonn strengthens the conclusion that the conference was staged primarily to dramatize the Soviet thesis that the West will bear the entire responsibility for the consequences of rearming West Germany and to lay the groundwork for the creation of an Eastern security system, including an East German army, to counterbalance the build-up of West German military power.

Policy toward Germany

Following the Berlin conference, Moscow moved quickly to enhance the prestige and ostensible freedom of the East German government in order to promote it as a partner in all-German and international negotiations and to generate West German frustration with Adenauer's delay in gaining full sovereignty of the Federal Republic. At the same time, the Soviet leaders, by repeatedly insisting that the integration of West Germany in the Western alliance will seal the permanent division of Germany, have tried to encourage the emergence of a government in Bonn favorably disposed to co-operate with the USSR.

Policy toward Britain and Europe

Soviet policy toward Britain continued to rest on the assumption that there are irreconcilable conflicts of interest between the United States and Britain which eventually will lead to a serious cleavage. During the first part of the Geneva conference, Molotov adopted an attitude considerably more cordial toward the United Kingdom than toward France

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or the United States. Soviet propaganda stressed the reasonable attitude of the United Kingdom in contrast to that of the United States and of France under Laniel and, at the end of May, praised the efforts of British diplomacy. More recently, Soviet moves toward Britain were directed at strengthening opposition to the government's policy on German rearmament. Left-wing Labor opinion was apparently singled out as the most promising field for exploitation.

The USSR directed an intensified campaign of conciliation toward the Scandinavian countries in which the most significant moves included Soviet naval visits to Stockholm and Helsinki in July, the awarding of the Order of Lenin to President Paasikivi on the tenth anniversary of the Soviet-Finnish armistice in September, better treatment of Swedish and Danish fishermen in the Baltic, and a growing exchange of commercial, trade union and cultural delegations.

Soviet bloc relations with Yugoslavia have improved steadily since the summer of 1953, largely because of Soviet initiative. There has been a decided relaxation of pressure on the Tito regime. Apparently no serious attempt has been made to entice Belgrade back into the Orbit, although some maneuvers were apparently designed to arouse Western suspicions of the Belgrade regime. This effort seems to have the purpose of arresting the growth of Yugoslav-Western co-operation and plans for Balkan defense, and of demonstrating Moscow's desire to reduce tensions and to recognize the independence of small powers adjacent to the Orbit.

Policy toward the Middle East

Soviet actions in the Middle East were aimed at preventing or at least retarding an American-sponsored regional defense arrangement. Two sharply worded notes to Turkey and Pakistan showed Moscow's displeasure over the incipient Turkish-Pakistani military agreement. Despite these efforts, Soviet diplomacy in the Middle East suffered two reverses during July. The USSR was unable to prevent Egyptian acquiescence in an agreement for the return of British forces to the Suez base in the event of an attack on any of the Arab League states or Turkey by a "third power." It also failed to obtain assurances that Iran would not participate in the Turkish-Pakistani military pact.

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By late autumn, there were increasing signs that the Soviet leaders had decided to adopt a different approach toward Turkey and Iran in particular.

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These gestures were accompanied by a series of unusually friendly broadcasts stressing the "historical ties" between Turkey and the USSR and the mutual benefits which would result from close cultural and economic ties. On 2 December, Moscow signed a treaty with Iran settling border and financial disputes which had long disturbed Soviet-Iranian relations.

The Malenkov regime's attitude toward India seems governed primarily by a desire to encourage India's aspirations to play a moderating and mediatory role between the two power blocs. Malenkov's special tribute to Nehru in March was a good example of the play Soviet leaders have been making for Indian sympathy with their opposition to American policy in the Middle East, Southeast Asia, and the Far East. Moscow made much of the Chou-Nehru "Five Principles" as a key to relations between Communist and non-Communist states, Nehru was invited to visit the USSR, and Moscow showed a growing interest in expanding technical assistance activities in India.

Policy toward the Far East

The Soviet leaders also undertook some important moves to gain greater influence in Indonesia. The first Soviet ambassador, who arrived in Djakarta in September, has been encouraging Indonesian cultural and technical groups to visit the USSR.

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Soviet policy toward Japan indicated that the Soviet leaders anticipate changes in Japanese policy in the direction of an economic and political accommodation with the Orbit. Moscow's and Peiping's actions during 1954 suggest that they do not believe there are sufficient advantages to be gained in the immediate future to justify meeting Japanese conditions for a resumption of normal diplomatic relations. The Communist states are, instead, biding their time in the

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conviction that Japan's pro-Western policy most eventually fail as a consequence of the logic of economic and political factors and the rise of nationalism.

Molotov's statement to a Japanese paper on 11 September made clear once again that the price for any real concessions was severance of Japan's ties with the United States. This position was well summarized in the 11 October joint Sino-Soviet statement which demanded that foreign troops should be evacuated from Japan and that Japan should be allowed to establish friendly trade relations with all Asian countries.

The USSR and Communist China presented a solidly united front to the West during 1954. There were no signs of any serious cleavage on world or Asian policy with the possible exception of differences over lines of action regarding Formosa. In general, Moscow portrayed Peiping as the dynamic "junior partner" in the Communist bloc, the Far Eastern leader of the Communist movement and a model for revolutions in colonial and semicolonial Asian countries, and a rightful participant in major international deliberations.

Moscow's military policy on Asian issues was reflected in Khrushchev's speech in Peiping and also emerged in a major provision of the 11 October communique covering the scheduled withdrawal of Soviet troops from Port Arthur and the return of the installations there to China without compensation by 31 May 1955. While this provision is in part a recognition of China's growing military capabilities, it is also closely related to Moscow's desire to avoid involvement in any dangerous situation created by any reckless actions on the part of Peiping and Moscow's reluctance to extend any automatic military commitments to China. This caution was also evident in Khrushchev's Peiping speech which carefully avoided anything resembling a Soviet commitment of support for China's claims to Formosa, promising only the support of the Soviet "people" (not government). He made no mention of the Sino-Soviet alliance in relation to Formosa, and Malenkov, Molotov, and Voroshilov pointedly ignored the Chinese ambassador's toast at the Chinese reception in Moscow to China's determination to liberate Formosa. Since that time, the most militant Soviet statement on this issue has been a repetition of a Chinese assertion that the "Chinese people" are strong enough to "liberate" Formosa.

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Moscow and Peiping continued their joint efforts toward building up North Korea as a full-fledged satellite and as a buffer against the Western power complex centered in Japan. The Communist leaders apparently regard the Korean situation as relatively stable. Their proposals on the Korean question at the Geneva conference were quite similar to the Soviet plan for Germany and indicated no greater interest in serious negotiations for a settlement. Recently, the North Korean regime has increased its appeals to South Korea for economic and cultural exchanges between the two parts of the country.

Soviet efforts to encourage and exploit deeply-rooted conflicts of interest within the non-Communist world and to foster sentiment for a neutralist position and a modus vivendi with the Soviet world have been powerfully reinforced by the emergence of increased Soviet nuclear capabilities against which Western Europe and Japan have no defense except the prospect of American retaliation. These peoples have been reminded by the USSR that while the United States may hope to survive an atomic war, Britain, France, Germany and Japan cannot. Moscow would like to persuade these peoples that they have a choice between certain destruction as allies of the United States and possible survival as "neutrals" in a war which would be decided not by them but by combat between the two great atomic powers. This theme, however, has not been developed systematically by Soviet propagandists and there has been no open effort to use Soviet nuclear capabilities as a weapon of direct intimidation to compel acquiescence to Soviet demands.

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Sino-Soviet Relations
(January-November 1954)

During 1954 Moscow and Peiping seem to have arrived at a working relationship, which has been evolving since the establishment of the Chinese People's Republic in 1949. This relationship has been characterized by Soviet grants to Peiping of economic assistance on a modest level but including high priority items, general Soviet avoidance of direct involvement in potentially explosive situations in the Far East, and apparent Soviet willingness to advance China's position in international affairs. These policies have been accompanied by a more grudging but growing Soviet recognition of China's claims to distinctive ideological status in the Communist world. This relationship reflects the practical interests presently shared by the USSR and China--i.e., the Chinese Communist regime is dependent on the USSR for the essentials of economic and military assistance necessary to build up its position as an Asian power, while the Soviet regime relies on Peiping as the center of Communist power in the Far East serving to counter Western-oriented power and providing uncommitted Asians with an impressive example of Communist economic and military achievement.

In October of this year Khrushchev led an unprecedented group of Soviet luminaries out to Peiping where they endorsed China's domestic and international program planned for the next several years. The joint communiqué which climaxed this visit provided indications of the concerns and commitments involved in the pragmatic relationship worked out between Moscow and Peiping.

Soviet Economic Assistance to China

In line with the economic relationship evidently worked out with Moscow, the Chinese leaders in early January prepared their people not to expect salvation for their economic problems from any source other than their own resources. The official Chinese People's Daily on 8 January bluntly warned that China must rely on its own capital accumulation for its economic development and must not expect consumers' goods from the USSR since the Soviet economy developed according to a definite ratio which will not be changed simply to absorb more Chinese agricultural products or to produce more consumers' goods to meet Chinese demands. Throughout the year, which was marked by the second most disastrous flood of the century, Peiping countinued to stress that while Moscow had provided important aid and advice China could only accomplish its Socialist goals through its own redoubled efforts.

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The additional Soviet ruble loan equivalent to $130,000,000 in the form of a long-term credit announced in the communiqué of 11 October would seem a modest contribution to China's socialist industrialization. The publicity accorded by Peiping to the communiqué suggests that the Chinese Communists may have considered that the modest level of the Soviet loan was balanced by the other advantages and the prestige accorded to China in the rest of the document.

The communiqué discloses that the USSR had agreed to build fifteen industrial installations in addition to the 141 projects announced in September 1953 as a ten year program (1950-1959) of Soviet aid to China. As a result of this program, a Chinese spokesman stated in Pravda in June, Chinese industrial output in 1959 will attain the Soviet level of 1932. Such a program will entail extreme austerity on the part of the Chinese, a point frequently made by Chinese propagandists. There will also be no prospect for an immediate rise in the Chinese standard of living.

Following the issuance of the communiqué, the two states also released two sets of letters exchanged between Mao and Khrushchev concerning the Soviet gift of equipment for the establishment of a Chinese Communist state farm--the first outright Soviet grant to China--and of the items on display in the Soviet exhibition in Peiping. By contrast, the results of economic negotiations announced in September 1953 were given only a modicum of attention.

There were other features of the communiqué which seem of value to the Chinese. The program for joint construction of a railroad across Central Asia and another through Mongolia provides China with two additional links to the Soviet Union. Their strategic importance during wartime in providing alternate routes is accompanied by the advantages of making the mineral resources of these areas accessible to exploitation.

The return to Chinese control beginning 1 January 1955 of the joint stock companies formed in 1950 and 1951 for the exploitation of oil and minerals in Sinkiang, shipbuilding and repair in Dairen, and the operation of a civil air line was also provided for in the treaty. The Soviet Union is to be compensated for its share in these companies. The communiqué also provided for a rather extensive program of technical assistance which may be utilized by Moscow to retain control of these joint stock companies by keeping their "advisers" in key positions.

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Soviet Military Policy and China

The other major provision of the communiqué, the scheduled withdrawal of Soviet troops from Port Arthur and the return of the installations there to China without compensation by 31 May 1955, has been exploited as an example of the new situation in the Far East created by the Korean armistice and the growth of the Chinese defense potential. This would seem to be an indirect recognition of the first class air force which China acquired from the USSR after its entry in the Korean war and of the increasingly modernized Chinese army. Moscow has always appeared reluctant, however, to accompany this build-up of Chinese armed forces with any automatic commitment to China in the Far East. Peiping's emphasis on the joint obligation of the Sino-Soviet alliance has never been echoed by Moscow, which has stressed rather the role of China as the "stabilizing" factor in Asia.

On the whole the October agreement would seem to represent a strong indication of Moscow's preference for stressing economic development of its Chinese ally rather than the military aspects of the alliance. A similar Soviet caution has also been evident in Moscow's position regarding China's claims to Formosa. Khrushchev's speech in Peiping carefully avoided anything resembling a commitment of military support, promising only the support of the Soviet "people" (not government) for the liberation of Formosa. He made no mention of the Sino-Soviet alliance in relation to Formosa. At the Chinese celebration in Moscow, Malenkov, Molotov and Voroshilov pointedly ignored the Chinese ambassador's toast to China's determination to liberate Formosa.

Moscow and the Status of Peiping

For over a year Moscow has been making extensive efforts to obtain international recognition of China as a great power. Molotov inserted this issue in the Berlin conferences, and Moscow cited China's participation at Geneva as proof of world recognition of her enhanced status.

In the past Moscow has not appeared quite so ardent in acknowledging Peiping's claims for Mao as a Communist theoretician and the "China way" as a contribution to world Communism, but over the past year Moscow has been publicizing more generous estimates of Mao's position and the unique features of Communism in China. In January the Cominform journal in reviewing Volume Four of Mao's Collected Works portrayed Mao as an "outstanding captain and a profound

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military theoretician" who "creatively and in a new way characterized the Chinese revolution as a special type, now typical for the revolution in colonial and semicolonial countries." This designation of Chinese Communism as a model for Asia reversed a policy of reticence on this subject followed by the USSR since 1951.

In September the long awaited Soviet text on Political Economy was reviewed by Pravda, which cited China's movement into socialism without a prior period of capitalism as an outstanding example of how each country must work out its own economic policy regarding socialism. In this text the Eastern European democracies also were given a freer hand in the development of their own national approaches to socialism. A former high-level Soviet official interprets this ideological recognition of nationalism and the return of the various joint stock companies in China and Eastern Europe to their national governments as reflecting a Soviet estimate that recognition of national pride will contribute to greater satisfaction and hence unity throughout the Orbit.

By the time of China's September Constitutional Congress, the major points of the Chinese pattern for socialism had evidently been worked out and the general line received official Soviet endorsement by Khrushchev when he spoke in Peiping on 30 September. The emphasis on the need for a long period of gradual transformation to socialist industrialization might be especially attractive to Moscow because of its implication of less pressing demands for immediate Soviet aid. Similarly, Soviet generosity in condoning a national way to socialism may have been motivated by a more realistic appraisal of what must be conceded if China is to accomplish its goals without wholesale Soviet assistance.

On the whole the Khrushchev visit represented a new high in Soviet efforts to build up the prestige of China. Never has such a Soviet galaxy visited China and very rarely has such a group been known to have left the USSR. Never before has an important Sino-Soviet communiqué been issued outside of the Soviet capital.

With the removal of Soviet troops from Port Arthur and Soviet relinquishment of its share in the joint stock companies in Sinkiang and Dairen, China's influence will displace the last overt remnants of Soviet control in sensitive areas which have been the subject of historical Sino-Soviet differences. As in Eastern Europe, the return of the stock

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companies will not only remove the most obvious manifestation of Soviet domination, but also demonstrate to the rest of the world the solidarity and trust characterizing the Sino-Soviet relationship. So too has the scheduled withdrawal of Soviet troops from Port Arthur, whose retention in 1952 was believed to be at Chinese request, been utilized by China to show Asia how Moscow has respected China's independence.

The USSR would seem to be attempting to satisfy the requirements of its great-power ally at minimum cost and in a manner that serves Soviet as well as Chinese self-interest. The Chinese are assured that Moscow approves of their plan for socialism, but Soviet endorsement has implied little in the way of increased economic commitment. In addition, withdrawing from Port Arthur might well serve Moscow's interest in getting out of what might be regarded as a symbol of Soviet commitment in Asia and thus an obligation to back the Chinese in any explosive situation in which Peiping might become involved. The agreement on withdrawal was reached at Soviet request, according to a Peiping commentary. The communiqué appeared partly designed to give emphasis to "lessened tensions" due to reduction in the Japanese threat and thus serve the Soviet effort to appear "peace-loving" at this time.

Moscow appears to have worked out an accommodation to a rising China ruled by a major Communist theoretician. It appears to be an arrangement through which the USSR has assured itself of an ally firmly proceeding along an approved course in a manner which will gradually strengthen China and diminish the danger of any Chinese dissatisfaction with its Moscow alliance.

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POLITICAL AND SOCIAL DEVELOPMENTS WITHIN THE SOVIET UNION (January-November 1954)

During the period under review, Soviet internal policy was still making adjustments to Stalin's death and the "new look" inaugurated shortly after that event. The facade of strict "collectivity" of leadership was reimposed after a period when publicity accorded Khrushchev rose to a point where he appeared a good deal more prominent than any other Soviet leader. Questions of the organization and control of the security apparatus which had figured in Beria's bid for power were largely resolved and that great empire was broken up. The regime moved back from some of the more exposed positions it occupied at the time of the launching of the "new look" and reaffirmed its intention to keep society in a firmly "socialist" mold, even at the price of some of the popular support it appears to have coveted so much.

Leadership

The propaganda treatment of the top leadership from January to June was characterized by considerable flux. The year opened with Malenkov appearing as the first among equals, but with the public prestige and activity of party first secretary Khrushchev on the upsurge. This trend continued throughout January and February, and by March Khrushchev's personal publicity outstripped that of Malenkov or any other Soviet leader. Khrushchev's public build-up continued to grow, partially at Malenkov's expense, reaching a high point in the anniversary celebrations of Ukrainian-Russian reunification toward the end of May. On 7 June, the Soviet press adopted an alphabetical listing for members of the party presidium instead of the usual listing by order of precedence, depriving Malenkov of one of his few remaining attributes of pre-eminence. By this time, Khrushchev's growing prominence seriously threatened the facade of collective leadership, and some countermove was necessary to remove the impression that Khrushchev was the dominant figure.

After June, however, the publicity attendant upon Khrushchev began to fall off. The collectivity of leadership was strongly re-emphasized, although the publicity accorded Malenkov increased somewhat. The very alphabetical listing mentioned above, whatever its origin, served to stress the theme of equality among top leaders. It has been carried to extraordinary lengths--Soviet broadcasts in English rearrange the Russian listings to put them in English

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alphabetical order, and even captions under pictures carry the names by alphabet rather than by position in the photograph.

The Khrushchev propaganda build-up thus seems to have been halted in June by the reimposition of strict collectivity. The compulsion for collectivity--springing from a feeling that too much power for one member of the ruling group means the downfall of the rest--which operated against Malenkov after Stalin's death and then against Beria, has apparently once more proved itself the strongest force within the presidium.

During the summer months, almost no publicity was accorded Soviet leaders as individuals, but, since September, Khrushchev has again been receiving somewhat more publicity than other Soviet leaders. He headed the well-publicized "government" delegation to China and made a two-week inspection tour through Siberia on his way back to Moscow. He signed the central committee decree condemning distortions of the party's anti-religious propaganda campaign, the first such decree since Stalin's death to be signed by an individual rather than by the central committee as a whole. His recent inspection trip to Tadzhikistan and Uzbekistan received considerable publicity in the central and republican press. Although this publicity represents some departure from the summer's anonymity of the top leadership, it seems a logical concomitant of Khrushchev's activities rather than a bid for personal prestige.

Relations within the top leadership appear to be relatively stable at present. Foreigners who have had a chance to observe the top leaders have reported that these men appeared relaxed and friendly among themselves. Furthermore, Malenkov, Khrushchev, Molotov, and other members of the ruling group have been absent from Moscow for long periods of time, suggesting that top-level relationships are not such as to make them worry about the security of their positions.

How long this harmony will be preserved is of course uncertain. It seems logical that behind-the-scenes maneuvering continues, and might burst into the open under great strain. Such a strain might be imposed by serious differences over policy, major setbacks, or some desperate bid for personal power by one of the members of the top body, but there is apparently an amicable working relationship at present.

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Although Malenkov and Khrushchev still appear to have more authority and prestige than other presidium members, there appears to be a considerable degree of joint rule at the summit of the hierarchy. [redacted] 25X1 25X1 second-level presidium figures are currently playing an important role in policy-making. Top-level responsibilities are apparently divided among the leading figures, with some or all members of the presidium making joint decisions on the major policy questions. Thus even so low-ranking a member of the presidium as Saburov felt free to comment off-the-cuff on Soviet foreign policy to New York Times correspondent Clifton Daniel at a Yugoslav embassy reception in Moscow last November.

Strenuous efforts have been made to render Soviet leadership more effective on all levels. Top figures have made prolonged inspection trips in many regions of the USSR and have participated in the work of all sorts of conferences, including those of workers in transport, machine tractor stations, state farms, and, more recently, in the building trades. In January, the central committee issued a stiff decree on increasing the efficiency of the whole state and party apparatus and numerous party and government officials have been removed for their "bureaucratic" leadership. Such critical themes have occupied a prominent position in Soviet propaganda throughout the year. An indication of the levels this campaign is reaching was given by Party Life in August, when it revealed that A. D. Krutikov, USSR deputy minister of trade, had been removed from his post and expelled from the party on charges of nepotism and corrupt conduct. Large numbers of personnel are being transferred from administrative posts in the government apparatus to work in the productive sectors of the economy, and local initiative and imagination are being encouraged.

Security Apparatus

The regime has taken steps to break up the security apparatus, one of the most dangerous sources of power in any struggle within the top leadership and one which Beria had attempted to exploit. The police and security functions, which had been combined in a single ministry (MVD) after Stalin's death, were split again near the first of the year, and the formation of the Committee of State Security (KGB),

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which is believed to have jurisdiction only over the strictly security and intelligence functions, was announced on 13 March. The establishment of a "committee" rather than a ministry suggests that the new leaders may not have wished to vest control over the security functions in one man but retain closer control over it themselves.

The MVD apparently has kept virtually all overt police functions and has regained the control over the forced labor camps, which it lost in the March 1953 reorganization. The important economic enterprises which the MVD controlled in Stalin's day and lost in March 1953 for the most part remain in the hands of the ministries which acquired them. The MVD is now almost exclusively an internal police organization. The regime also took steps to break up Dalstroi, formerly the MVD's most important slave-labor enterprise, which had been transferred to the Ministry of Metallurgy in March, 1953. Jurisdiction over it caused a prolonged hassle during the first months of 1954 between Kruglov, the MVD chief, and Tevosyan, former minister of nonferrous metallurgy, both of whom wanted control. Finally, Dalstroi's production functions were left under the minister of nonferrous metallurgy, under whose functional subordination they had been placed in the March 1953 reorganization. General administration over that Far Northern area was turned over to the newly-created Magadan oblast, and the subordinate economic functions were given to the ministries directly concerned.

While the division and reduction in size of the police apparatus was probably undertaken partly to promote efficiency of operation, it has also destroyed an agglomerate of power which, under the control of one man, would represent a potential threat to the remaining members of the ruling group. It has also contributed to the regime's continuing effort to solidify its popular support and assure the public that the police power will be more severely curtailed than under Stalin.

"New Look" Readjustments

Other internal policies have, during the past eight months, been characterized by a readjustment to some of the consequences of the "new course" and an elimination or modification of certain practices which grew up as a consequence of the new policies and evidently overstepped the bounds of the new "liberalism." This has been noted particularly in the cultural field, where officially sponsored appeals for more freedom from bureaucratic controls and

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monotonous stylistic conformity appeared soon after Stalin's death. These culminated last fall in bitter attacks on "'safe' superficiality, dullness, and stereotyped work" by Khachaturian, Shostakovich, and Ilya Ehrenburg. This attempt to counter disaffection among the intelligentsia and make literature interesting enough so that it could become an effective tool of the regime bore fruit in satirical plays and novels which went beyond the limits the regime wished to maintain and cast reflections on the whole tenor of Soviet life.

The regime therefore assumed a stricter attitude towards art and again made ideological and stylistic orthodoxy important criteria of artistic merit, although it has not adopted as clear-cut and restrictive an official line on art as did Stalin. The prospect of a revitalized literature and a more vigorous intellectual community had to be sacrificed to the need to protect Soviet society from public criticism. In the same way, the realities of Soviet life impose limits on other political and economic concessions made in the first flush of enthusiasm after Stalin's death, and, if they prove too broad to be contained within these limits, they may well be modified.

Socialist Morality

The regime has shown a determination to keep Soviet society strictly "socialist" and purge "capitalist remnants" such as "religious prejudices," crime and drunkenness. The campaign against crime can be explained on purely rational grounds. The previous Soviet policy was to play down the existence of crimes against individuals, and the punishments authorized for such crimes--as opposed to crimes against the state--were in general very low. With the growing industrialization and urbanization of Soviet society, coupled with the dislocation caused by war and difficult postwar conditions, the USSR appears to have experienced a growth in crime similar to that observed in other countries. The amnesty of 1953 exacerbated the problem by loosing large numbers of criminals into society. The leaders seem to have recognized that the earlier refusal to admit the existence of major crime was no answer to the problem, and capital punishment for premeditated murder was reinstituted last May for the first time in 300 years. The Soviet press is giving limited publicity to court cases of murder, rape, and other crimes of violence, and stiffer sentences are being handed out for minor crimes. On the other hand, the propaganda has stressed that the innocent will not suffer in the drive, and

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several militiamen have been publicly condemned for arbitrary use of the police power. The theme is protection of the people's rights and safety, not a crackdown for the good of the state.

There is also a campaign under way to remake Soviet citizens into the model of the "ideal Soviet man." Drunkenness is being severely condemned, and in some cases even drinking itself is criticized. Moscow's famed "Kokteil Kholl" has been shut down and there have even been rumors of an impending dry law. Komsomol "vigilantes" are patrolling the streets of Leningrad and other cities, watching for any backsliding into drunkenness or hooliganism among their comrades, and an aura of puritanism has settled over the socialist motherland. The virtues of a good family life are widely extolled, and "capitalist remnants" such as swearing and tipping--which "degrades" the individual--are severely criticized, and their abolition is called for.

The breadth of this campaign, some aspects of which cannot be very popular, suggests that the regime may be trying to do something about the cultural renovation of man which is supposed to occur under conditions of socialism. The motivation of this campaign--especially the more exaggerated aspects of it--would seem to be partly ideological, for it goes somewhat contrary to the more relaxed atmosphere of Soviet policy since Stalin's death, and it is not readily justifiable on realistic grounds alone.

The regime has also launched an extensive propaganda campaign against religious beliefs and customs. Agitators have been specifically warned not to "injure the feelings" of believers, and in November the central committee issued a decree reiterating these warnings and severely criticizing those who had violated them. Nevertheless, the campaign cannot help but alienate the more religious segments of the population and provoke an unfavorable reaction abroad. There appears little rational ground for this step, especially in view of the broad economic and social program which the regime has been implementing to cultivate popular support. The church in Russia is well penetrated by the MVD and completely subordinate to the state. It would seem more feasible at this time for the regime to use the existing religion as an instrument of state policy, as has been done in Russia for hundreds of years, than to inaugurate a noisy if nonviolent campaign against it. This campaign points up the limits to the new realism of the Soviet leaders and makes it abundantly clear that they are not prepared to give up the "socialist" orientation of Soviet life in their quest for popular support.

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THE SOVIET ECONOMY
(January-November 1954)

Significant achievement has attended efforts of the Soviet regime during 1954 to implement its new plans for production of manufactured consumers' goods and housing construction, but agricultural output probably has increased very little if at all this year because of poor weather conditions in Western USSR. The expanded plans for investment in agriculture and consumers' goods, however, have only partially been offset by relatively minor scheduled decreases of investment in other fields. Soviet military preparedness has been maintained at about the same high level as in 1953, although the general orientation of the economy is not indicative of all-out mobilization to support general hostilities in the immediate future.

The imposition of these new and enlarged economic plans on an already ambitious Fifth Five-Year Plan has resulted in strains which have caused shortages of some commodities--especially construction materials. Despite large increases, investment in both heavy and light industry, agriculture and consumers' goods is running behind schedule thus far in 1954. In attempting to implement these enlarged economic plans, the government is introducing many new incentive measures to raise labor productivity, in addition to the primary method of raising productivity through increased investment. In the first half of 1954, the USSR successfully reversed the previous downward trend of growth in labor productivity, but the further large increases necessary to attain 1955 goals will probably not be wholly achieved.

The New Economic Policy

One of the primary considerations motivating the Malenkov regime to launch the new agricultural and consumers' welfare programs was the realization that the long-term growth of the Soviet economy was retarded by economic imbalances inherited from the Stalin era. Traditionally, the planners had emphasized heavy industrial expansion while neglecting agriculture and light industry. Soviet agricultural production increased by no more than 10 percent from 1940 through 1952, and the population increased by about the same amount. Availability of food per capita in this interval probably declined since much of the increase in agricultural production was in industrial crops, not foodstuffs. The annual improvement in labor productivity had steadily declined

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since 1950, obliging the government to rely heavily upon increases in the size of the labor force to sustain an expansion in production.

Apparently hoping that increased availabilities of consumers' goods will provide an incentive for increased labor productivity, the planners have turned unusual attention to the development of the neglected areas of the Soviet economy. In addition, the new agricultural and consumers' welfare program, by attempting to satisfy popular demand for an improvement in living standards, has permitted the Malenkov regime to identify itself with the welfare of the populace.

The Agricultural Phase of the Policy

In early March 1954, the central committee of the Communist Party issued a decree ordering an increase in the country's grain acreage of about 32,000,000 acres of "new" and reclaimed land by the end of the 1955 spring sowing season. The decree admitted that the USSR needed more grain to increase food supplies for a growing population, supplement state grain reserves, supply necessary livestock feed, and increase grain exports as the basis for an expanding foreign trade. In the dry steppelands of Kazakhstan and Siberia, which will be used for most of this increase in acreage, however, weather unfavorable for good crops will probably occur two out of every five years.

Since March, two further measures have been taken to raise grain production. In June 1954, the incentive measures which had been decreed for vegetables, industrial crops, and livestock raising in the autumn of 1953 were extended to grain crops. The compulsory delivery quotas for collective farms and farmers were reduced, and the state purchase prices for deliveries to the government above these quotas were increased. In August 1954, the government enlarged the grain acreage expansion program from 32 to 37 million acres in 1955, and to a total of 69 to 74 million acres in 1956. The original program was to be carried out primarily by collective farms, while the new plan for 1956 is to be implemented mainly by state farms, thus providing for an increased proportion of total output from the reclaimed areas which the state can directly control and distribute. Most of the new land in Kazakhstan and Siberia to be put under the plow in 1956 is even less suitable for cultivation than that scheduled for use in the earlier years of the expansion program, which underscores the gamble involved in working this marginal land area.

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Despite the Kremlin's energetic measures to carry out its agricultural program, available evidence indicates that unfavorable weather reduced the 1954 harvest to a level about equal to the relatively poor harvest last year, the lowest since 1949. The harvest would have been even smaller if the below-normal grain crops in Western USSR, badly affected by drought, had not been just about offset by the successful expansion of output on the "new" and reclaimed lands of Kazakhstan and Siberia.

From the standpoint of the regime, the poor over-all performance in agriculture this year was almost certainly overshadowed by the gains made in urban food supply, at the expense of consumption levels in the countryside. The changes in procurement policy instituted last fall and continued this year, as well as the general tightening of administrative controls over the collective farms, were probably responsible for the regime's success in obtaining greater amounts of foodstuffs during the first ten months of 1954 as compared with the same period last year (i.e., nearly five million tons more of grain, over a million tons more of potatoes, nearly 500,000 tons more of vegetables, over 600,000 tons more of milk, and nearly 250,000 tons more of meat). Although the achievements fell far short of plans, particularly with respect to meat and dairy products, they testify to the increased effectiveness of the regime's control over supplies. If political or strategic considerations do not lead the regime to divert a large share of the increased grain supplies to export or reserves, some improvement in the urban supply situation may be expected.

The changes in distribution and the demonstrable efforts of the government to attain increased output next year will probably moderate any dissatisfaction of the urban populace at not receiving all of the promised improvement in supplies. In any event the 17 August decree--which expanded the "new lands" program for 1955, extended this program into 1956, and suggested its continuation thereafter--strongly indicates continued emphasis on the new agricultural program in the USSR.

Aside from the element of weather, and perhaps construction, most aspects of the agricultural program carried out to date have been successful. The plans for transferring technically-trained manpower to agriculture, increasing the supply of tillage machinery, and expanding spring sowing have all been met. These successes, combined with the poor harvest in the traditional grain areas of European Russia, were

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probably major factors in inducing the government to enlarge the acreage expansion program and extend it to 1956.

Features of the 1954 Budget

The 1954 budget, presented in the Supreme Soviet on 21 April 1954 by Finance Minister Zverev, revealed a continued emphasis on long-range economic development and investment, combined with vigorous measures to implement the program for expanded agricultural and consumers' goods production. The budget allocation this year of 100.3 billion rubles for maintenance and equipment of the armed forces, although about ten billion rubles below that allocated in 1953, appears adequate to maintain the military establishment at its present strength. Moreover, since it is likely that the 1953 defense allocations were underspent and even fell slightly below the 1952 level, the smaller budget allowance for 1954 probably does not represent a significant reduction from actual 1953 outlays.

The estimated level of military procurement in 1954, measures in constant value rubles, is approximately double that of 1940 and is two thirds that of 1944, the peak year of World War II expenditures. Such expenditures will be sufficient to maintain production at a rate close to last year's and continue modernization of the Soviet armed forces. [redacted] new models of conventional weapons have in fact been introduced during 1954 in each branch of the armed services, including new aircraft, naval vessels, and land armaments. Although the level of production should approximate last year's, the military end item portion of Soviet industry suffered a decline in the materials allocations priority in the fall of 1953. Prioritywise, these industries in 1954 continue subordinate to those of the new programs. 25X1 25X1

Spending on the development of unconventional weapons is probably not included in the direct defense appropriations, and the main atomic energy outlays are believed to be contained in the category "financing of the national economy." The slight decline in explicit defense outlays, therefore, does not imply a slackening in these important activities.

In the search for sources of revenue, Soviet planners are relying more heavily on taxes on profits of state enterprises, although the principal receipts will again derive from the turnover tax. Planning on more than an 8-percent increase over last year in industrial labor productivity, the

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budget expects to obtain from the tax on profits 12 billion rubles beyond the receipts of last year.

Industrial Production Results

The half-year plan results on production, published in Pravda on 23 July, provide a measure of the degree of success in meeting objectives in the initial phase of the new course. The uptrend in retail trade continued at the high rate attained in 1953 and large percentage gains in production were reported for a number of consumers' durables. However, in absolute terms these gains are small since the production base in this area has been traditionally low.

A very significant feature of the mid-term report for 1954 was the reversal of declining trends of the past years in the rate of growth of capital investment and labor productivity. Capital investment rose 14 percent over the first half of 1953--a large increase, although the very ambitious investment plans in all sectors of the economy were not wholly achieved. Industrial labor productivity rose 7.5 percent over corresponding period in 1953. This rate of growth, however, is still insufficient for attainment of the original five-year target. In contrast, gross industrial production was 14 percent higher than in the same period of 1953, and fulfillment of the goals for 1954 and 1955 should be easily achieved.

Prospects for fulfilling the 1955 goals for industrial production are generally favorable. Scheduled output of consumers' durables will probably be attained as well as the goals for gross industrial output. Targets will probably not be met, however, for several important commodities--pig iron, oil, minerals, fertilizers, and some building materials. It is also doubtful whether agricultural performance will improve sufficiently to permit fulfillment of the plans for the major food and textile products.

Increased Trade with the West

In order to provide increased imports of consumers goods and possibly to add substance to propaganda claims of expanded East-West trade, the USSR has stepped up its commerce with the non-Communist world in the first quarter of 1954 by more than 70 percent above the level of the corresponding period last year. Nevertheless, Soviet traders have fallen slightly behind their pace of the last quarter of 1953, when Soviet foreign trade emerged from the doldrums which had held it during most of last year. It now appears that the USSR is headed for its best postwar trading year.

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Despite this performance, the USSR is not becoming the major trading power pictured in its propaganda, nor is any sensational upsurge in its international commerce likely in the next few years. The USSR, heavily committed to domestic economic programs requiring increased domestic agricultural consumption, probably will continue to experience difficulty in providing acceptable exports in sufficient quantity to finance increasing imports.

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SOVIET MILITARY DEVELOPMENTS
(January-November 1954)

During the past year the military development of the USSR has included important progress in new weapons; emphasis on qualitative proficiency of combat forces; continued improvement and modernization in the air defense and long-range aviation forces and expansion of cruiser and submarine strength; and stabilization of military expenditures accompanied by a leveling off of personnel strengths in the Satellites. This pattern of developments, together with an absence of identifiable preparations for imminent hostilities, points to a decision to continue the long-haul armaments race with the West and to economize where possible without sacrificing combat effectiveness.

Important technological improvements have been made in the Soviet military arsenal. An increased potential explosive yield of available fissionable materials has been obtained through the use of thermonuclear boosting, and increased versatility of the Soviet nuclear arsenal has been achieved through development of a "family" of weapons. New jet medium and heavy bombers made their appearance in the spring of 1954. An all-weather interceptor capability was indicated this spring.

Published budget figures show a leveling-off of announced military expenditures, in contrast to the post-World War II trend of rising military appropriations. Nevertheless, expenditures continue to permit the qualitative improvement of the Soviet armed forces and maintenance of a high level of readiness.

Qualitative improvement in the training and combat readiness of the armed forces has also been emphasized by introduction of atomic warfare training into the Soviet army and continuing efforts to improve the early-warning and fighter interception capabilities of the air force.

There has been continued improvement and modernization in certain key military fields such as air defense, tactical and strategic aviation, and submarines. During the first half of 1954, the Soviet Union completed jet re-equipment of its fighter and light bomber units. Strenuous efforts continued to be made to improve both air warning and fighter defense forces. The Long Range Air Force began to receive jet medium bombers and medium-bomber-type aircraft began to operate in the Arctic. Naval strength continued to expand,

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with emphasis on the construction of cruisers and long-range submarines.

Nuclear Weapons:

Estimates of the Soviet atomic energy program have concluded that the USSR is now capable of producing nuclear weapons with explosive powers in the range of the equivalent of a few thousand tons of TNT to approximately one million tons of TNT. Throughout this yield range thermonuclear reactions were apparently used to increase (i.e., boost) the energy yield from the fissionable materials present without themselves directly contributing substantially to the total energy yield, and by the end of 1953 the USSR had reached a point in weapon technology at which it was capable of producing stockpile weapon types dictated by military requirements. It has also been estimated that the USSR will probably continue work on small-yield and small-dimension weapons as well as the development of weapons with energy yields well in excess of a million tons of TNT.

New Bombers:

The two new jet bomber types unveiled by the USSR on May Day 1954 constitute the most significant development in Soviet strategic aviation since the introduction of TU-4's into long-range units five years ago. Although the four-engine jet heavy bomber is thought to be in prototype stage of development and will probably not be available for operational use until late 1956, its appearance marks an important advance in the development of a Soviet capability for intercontinental warfare against the United States. The new twin-engine jet medium bomber has appeared in two medium bomber regiments in Western Russia; as of November, these regiments were believed to be approaching their full authorized strength of sixty jet medium bombers. Since the range of this aircraft is considered roughly comparable to that of the TU-4, its introduction into units does not represent an extension of present Soviet long-range capabilities insofar as new target areas are concerned, but rather a modernization of the existing establishment.

Night/All-weather Fighters:

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[redacted] Although a Soviet all-weather fighter has 25X1

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not been positively identified, [redacted] have reported swept-wing, twin-engine jet aircraft, the description of which suggest that they may be Soviet night fighters. Appearance of substantial numbers of night all-weather aircraft in Soviet combat units would eliminate a heretofore serious shortcoming in the Soviet air defense system. 25X1 25X1

Military Personnel Strengths:

Personnel strength of the Satellite armies has been stabilized at an estimated 1,115,000. The personnel strength of the Soviet army has remained constant at an estimated 2,500,000 since 1947.

Atomic Warfare Training:

A systematic program of indoctrination and training in tactics of atomic warfare was introduced in the Soviet army with the beginning of the current training year in December 1953. The program started with manual and classroom instruction in the basic principles of atomic warfare for both officers and enlisted men. It has included field exercises stressing defense against atomic weapons, progressing from small unit training through larger exercises. From what is known of the instruction given, it appears that emphasis is on defense against atomic weapons. [redacted] 25X1

Continuing Modernization of the Air Establishment:

During the past year, modernization of the Soviet air establishment has progressed with jet aircraft continuing to replace older types. Fighter units are now equipped with 8,000 MIG's, many of which are the newest version of this jet family, the MIG-17. Light bomber and reconnaissance units in all areas of the USSR continue to convert to the IL-28, now the Soviet standard bomber. It is estimated that 2,200 light jet bomber aircraft are now in operational units. Evidence of recent re-equipment of a ground attack division in East Germany with MIG's suggests that Soviet ground attack elements are undergoing modernization and that the SAF, profiting from US experience with jet fighter/bombers in Korea, has abandoned the concept of a separate aircraft for ground support.

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Air Base Development in the Soviet Arctic:

The use, since early 1954, of Soviet airfields along the Arctic littoral by TU-4's on weather reconnaissance suggests that the runways at these bases are now capable of sustaining at least limited medium bomber operations on a year-round basis.

Military Expenditures:

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economy measures may have been taken in the armed forces beginning in 1953, with the primary object of cutting expenses in the administration of some field force activities.

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It has been estimated that the economic programs inaugurated in 1953 have had the effect of leveling off military expenditures in that selective cutbacks are probably taking place in the production of some conventional armaments, many types of which are already stockpiled in quantity. Nevertheless, military procurement, even at the estimated 1953-1955 rate, would still permit the maintenance of the Soviet armed forces at present high levels and would allow continuous improvement in weapons and equipment.

Stockpiles of combat supplies were maintained at high levels; for example, total Soviet holdings of tanks and self-propelled guns is estimated to have remained fairly constant at more than 60,000 vehicles for the past two years.

Naval Construction and Modernization Program:

In 1954, continuing build-up of Soviet naval strength is expected to be reflected by the addition of 55 long-range submarines, three to five cruisers, and a small number of large destroyers, and the beginning of a program to modernize some 34 "S" class ocean patrol submarines. Production of medium-range submarines was begun at Leningrad in 1954. Thirty long range submarines were added to the fleet in 1953 and 16 the previous year. A total of 99 long-range submarines of two postwar designs have been completed to date. The commissioning of three

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cruisers represents over 25 percent of the currently available Sverdlov cruiser strength. There are now three large, fast destroyers of a new design in commission; one of these was added to the fleet in 1953. 25X1

at least one and possibly two new long-range 25X1
submarines have been completed in the Soviet Far East. The extensive "S" class modernization program has been approved and is now under way. Vessels of this class which were built between 1936 and 1947 comprise almost 20 percent of the long-range submarine strength currently available to the USSR.

Naval Dispositions:

In keeping with the expected strategic employment of the Northern Fleet submarine force, 20 new long-range boats have been assigned to northern waters. The concentration of 25 of such vessels in the Black Sea may indicate a greater potential Soviet naval capability in the Mediterranean. Five long range submarines, probably new, postwar-designed units, were transferred to the Soviet Far East in mid-1954. Seventy-nine improved ocean patrol submarines and 20 boats of a larger class have become operational since 1952 25X1
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EASTERN EUROPE
(January-November 1954)

Throughout 1954 the attention and activities of the Satellite governments and parties have been centered almost exclusively on implementing their new course policies and selling them to the party ranks and to the populations. These policies, initially proclaimed in the various Satellites between June and October of last year, are designed to increase agricultural, consumers' goods, and raw materials production and to improve popular and party morale. Despite the failure to obtain a significant degree of success in either of these two goals, the Communist leaders apparently plan to continue the new course, with modifications, at least until 1960.

Soviet Policy Toward the Satellites

Soviet policy during the past year has been characterized by an apparent willingness to grant the Satellites greater responsibility for the execution and control of internal affairs. This relaxation of control may be part of an early development in a general policy shift which would alter the control structure but not affect over-all Soviet governing power. The changes made to date, coupled with recent hints at the Moscow conference of a forthcoming Orbit military alliance with a unified command, suggest that a more sophisticated Soviet-Satellite control relationship may be in the offing. Organizations similar in concept to the already existing economic group (CEMA), which allegedly is to be strengthened as a co-operative effort, might in part replace the present rather blatant headquarters (Moscow)-field (Satellite) relationship. This type of organization might actually reinforce over-all Soviet control. At the same time, by ostensibly granting an equal voice to all members and by actually granting the Satellites a degree of broadened internal authority, it might permit the development of a facade of national Communist states. Such a facade might prove an effective device for impressing both the Satellite populations and parties and the non-Communist world with the good intentions of the USSR.

Two recent events of some significance appear to augment Satellite autonomy. The sale of the Soviet interests in joint companies in East Germany, Rumania, Bulgaria, and Hungary, with the apparent accompanying withdrawal of certain Soviet advisers and technicians assigned to these firms, will in the long run probably benefit the local economies and will increase local control of day-to-day industrial operations. This is consistent

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with the second development, a new Soviet line encouraging the Satellites to develop their economies according to local conditions. As phrased in the new Soviet textbook, Political Economy, each Satellite country must base its economic policies on individual historical development, the level of its production forces, and the special characteristics of its class relationships. As echoed in Hungary, frequently the first Satellite to implement new directives and the first to indicate greater local influence in policy implementation, this line means that no longer will the experiences of the Soviet Union be used as an exact pattern for local development; no longer will the error of mechanical imitation be permitted.

Other recent gestures include the greater prominence now permitted the Satellites in foreign affairs and international trade, the reappearance in several areas of a number of former Communists and government leaders purged during the Stalin era, and the cautiously limited appeal to nationalism evident in Hungary and Poland.

These developments have not halted Satellite propaganda adulation of the USSR, apparent most recently in the speeches of Satellite leaders on the anniversary of the October Revolution, but they do imply a general change in relationships, at least on the surface, for the duration of the new course. Although probably designed to increase Satellite popular support and party morale, and possibly to lessen a minor but now unnecessary economic burden on the Soviet Union, this change will not loosen the USSR's basic control of general policy, domestic and foreign, nor will it affect direct control of the military and security forces.

Possibly because of the recent changes in the Soviet-Satellite control relationships, the USSR apparently has been making efforts to improve some of these control channels. Since July 1953, new Soviet ambassadors have been assigned to all of the Satellites except Albania. Four of these new ambassadors have had extensive experience in party or government administration. They are therefore presumably better qualified than the Foreign Office specialists who preceded them to direct the Soviet program and to provide guidance to strengthen the local parties. Similarly, new Soviet military attachés assigned to all the Satellites during the past year are highly qualified professional army officers.

Satellite Internal Policies

In an effort to obtain the popular support required for the success of the new course, the Satellite regimes have been and are carrying out a concerted sales campaign to overcome the

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confusion within party ranks and to convince the general population of the program's reality. Party congresses have been convened or are scheduled in all of the Satellites except Albania for this purpose. Local or national elections, or both, have been held or are scheduled in every country, and the election laws have been revised to give the appearance of greater democracy. In Hungary, Czechoslovakia, and Poland the regimes are revitalizing national fronts in an attempt to strengthen the weak relationships between the party and the people. This has been accompanied in Hungary, Poland, and East Germany by a somewhat greater propaganda emphasis on the national heritage. The announced granting of sovereignty to the German Democratic Republic and related actions--such as the abolition of the branch offices of the Soviet high commission (the political functions of these offices apparently will be disguised and handled by newly established consular offices)--were intended to have a positive effect on local opinion, although they are primarily attributable to Soviet foreign policy considerations.

A number of former Satellite leaders, imprisoned or relegated to complete obscurity during the Stalin regime, have been rehabilitated on a carefully controlled basis--partly in an attempt to bolster the rejuvenated national front policy. By resurrecting and refurbishing these men, both Communists and non-Communists, the Satellites probably hope to create enthusiasm for their over-all program. In addition to underlining the new course de-emphasis on arbitrary arrest and fears of purge, the releases are probably intended to reassure the politically minded that new course intentions are sincere and that an era of "legality" has been introduced.

This emphasis on legality forms a part of the generally relaxed political line inaugurated in 1953 and continued this year. The regimes are, however, still faced with continuing passive resistance, and are now apparently confronted with an increased popular willingness to take advantage of any signs of Communist weaknesses. The Satellite regimes, therefore, have warned possible dissident elements that the relaxed line and persuasive efforts have definite limits. This policy is well illustrated in Czechoslovakia, where the recent pre-election campaign assumed a dual nature: on the one hand, strong propaganda stressing the freedom of Czech electoral procedures and the virtues of existence within a people's paradise, and on the other hand a series of trials for kulakism, espionage, and treason, apparently calculated to serve as examples of the consequences of resistance.

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This attempt to delineate the bounds of political relaxation has been neither consistent nor clear, but certainly has been necessary. In Hungary, in particular, where the original concessions were greatest, the people have taken advantage of a feeling of greater security from police persecution to express openly their antipathy to the regime and the USSR, to press their demands for improved standards of living, to contact foreigners, and to frustrate Communist efforts generally. The regime's failure to provide firm direction in carrying out the revised economic plans and the uncertainty generated within the party by vague and conflicting policies have encouraged the population to register discontent. As a result of further deteriorating economic conditions, the regime will probably be faced with further and possibly more serious public demonstrations of hostility during the coming winter. Despite the apparent seriousness of the situation, Hungarian Communist leaders in October reaffirmed the relaxed political line and criticized party members who attempt to reinstitute repressive measures.

Faced with specific problems, however, several of the Satellites have adopted--at least temporarily--more stringent measures to enforce their new economic policies. In agriculture, antikulak pressure was revived last summer in Poland and Czechoslovakia, and there are indications that, coincident with the limited revival of the collectivization program, the day of large-scale withdrawals from collectives in Hungary and Czechoslovakia has passed. There are also recent signs, at least in Czechoslovakia, that the situation in agriculture is being paralleled in industry and that a failure of labor discipline under the new course has forced a return to a harsher policy. In direct contrast to propaganda statements of last spring emphasizing that the party must not usurp the functions of management or abuse economic authority in general, party members in Czechoslovakia have been informed that it is both their right and their duty to control the activities of factory management. These instructions were first spelled out last June but apparently have only recently been emphasized. The implementation of such a policy, coupled with frequent official references to a deplorable lack of labor discipline, suggests that the regime may retain its program of offering economic incentives to the worker but scrap much of its relaxation policy.

The program of economic incentives, first announced in 1953, has for the most part been continued this year. Additional price reductions, for example, have been decreed in Bulgaria, Czechoslovakia, East Germany, Poland, and Albania. Even this policy, however, may have been modified by recent economic experience.

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Most of the Satellites have complained vigorously of unjustified wage payments, claiming that in many industries wage plans (i.e., the total amounts to be paid to workers during a specified period) have been exceeded but that labor productivity plans have been simultaneously underfulfilled. Piecemeal revisions in work norms have apparently been used, in effect, to lower some wages, and in November Premier Ulbricht indicated that industry-wide norm changes, presumably upwards, would soon take place in East Germany.

Confusion and failure in both the political and economic spheres has not as yet resulted in any widespread personnel or organizational changes within the Satellite parties and governments. Minor governmental changes, however, have taken place, and probably are designed to increase operating efficiency. The creation of "supercabinets" in several of the countries, for example, apparently is intended to concentrate within a small group the experience and power necessary to deal effectively with outstanding problems. Similarly, minor party reorganizations were apparently made in order to stress the appearance of collective leadership. The leading personality in each country no longer holds both the top party and the top government posts; the position of party secretary general has been abolished and replaced by a small secretariat headed by a first secretary who is without government post. Although a few personalities have become more prominent, such as the new first secretaries in Rumania, Bulgaria, and Czechoslovakia, the same key figures remain in control.

Satellite Foreign Policies

During 1954 the Satellite governments have played a move pronounced role in supporting Soviet foreign policy toward the West. This prominence was apparently motivated in part by a general Soviet policy of enhancing the appearance of Satellite sovereignty. Considerable effort has been made by Poland, and to a lesser extent by Czechoslovakia, both formerly traditional allies of France, to woo France away from the Western defense system. On 9 March, for example, Poland presented a note to Western neighbors of Germany urging the adoption of the Molotov proposal for a European security pact. On the eve of the EDC debate in the French Parliament, the Polish government offered France a mutual assistance pact. The Soviet Union's note on 13 November, proposing an all-European security conference, contained a unique reference to prior consultation with Poland and Czechoslovakia.

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Both Poland and Czechoslovakia have restored in part the cultural exchanges that once existed with France. Similarly, efforts to influence socialist and labor groups in Western Europe have been made. British Labor Party delegations have visited East Germany and Poland, and Western trade unions and business delegations have visited several Satellites.

Additional evidence of the greater maneuverability, under Soviet direction, now permitted the Satellites were the recent individual Bulgarian, Rumanian, and Hungarian diplomatic approaches to several non-Communist states asking for support in attempts to gain membership in the United Nations. Previous membership applications from Satellite states have been pushed by the Soviet Union itself as a part of its "package" deal.

The East German government has been used as a major tool of the USSR for approaches to Western Germany and for propagandizing the line that only negotiations between the East and West German governments will lead to unity and independence.

Satellite policies and attitudes toward the United States have been somewhat inconsistent, apparently motivated in part by a desire to reduce American influence in Eastern Europe and in part by attempts to follow the general Soviet conciliatory line. The Czechoslovak government has apparently adopted a policy of harassing the activities of the American embassy in Prague by forcing the resignation of all local employees with records of long service; the Hungarian government, on the other hand, recently informed the US legation in Budapest that because US-Hungarian relations had improved no action would be taken against legation personnel apprehended while illegally photographing military installations. The Czechoslovak border policy continues to be aggressive, American military personnel having been arrested and held on two occasions for alleged penetration of Czech territory

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Three Satellite states--East Germany, Czechoslovakia, and Hungary--accepted US flood relief aid in August and expressed gratitude for the "courteous offer," but strong anti-American propaganda continues to receive prominence in the Satellite press and radio. Bulgaria as recently as 18 November characterized the American imperialists as "fascist beasts" trading on the blood and suffering of hundreds of millions of innocent human beings.

Satellite relations with Yugoslavia, reflecting the Soviet policy, have been normalized. Small trade agreements, the exchange of cultural and athletic delegations, and a cessation

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of hostile propaganda characterize the present situation. In addition to direct Yugoslav-Satellite relationships, internal Satellite affairs and Soviet-Satellite relations have probably affected Belgrade's attitude toward the Orbit. The dissolution of most of the joint Soviet-Satellite companies, for example, was apparently interpreted in Yugoslavia as a development of some significance, one that indicated a reduction of Soviet control of the Satellite economies.

The Economic Situation

Although further price reductions were decreed this year in several of the Satellites, the quantity of food and consumer goods has only slightly improved. Even this improvement was made possible largely through imports and the release of some foodstuffs from stockpiles. Meat and dairy products continue in extremely short supply throughout the Orbit.

New course measures have not succeeded in increasing labor productivity as scheduled or in overcoming the populations' opposition to communism and Soviet domination. As a result, the Eastern European Satellites have generally failed to reach their economic goals during the past year.

Agricultural production was below the unsatisfactory 1953 levels, and thus inadequate for Satellite requirements. Goals were not reached because of peasant hostility, manpower shortages, lack of equipment and fertilizer, and unfavorable weather conditions. A drought throughout the area during the 1953 fall plowing and sowing season, followed by a long period of low temperatures, retarded the growth of grains, and lack of snow cover during December exposed the grain to killing frosts. Cold and rain delayed the planting of spring grains, and the heavy rains and floods in July and August hampered harvesting operations.

In addition to their agricultural failures, the Satellites have generally failed to fulfill their industrial production plans for 1954, despite reductions in the planned rates of industrial growth. Albania admitted underfulfillment of its plan for the first nine months of 1954, and Bulgaria, having failed to fulfill its plan during the first six months, cut its goals during the third quarter. Rumania claimed that it met its targets during the first half-year, but made no announcement of the percentage increase in industrial production over 1953. This omission, combined with an absolute decline in production late in 1953, makes it unlikely that Rumanian industrial production is above the level reached in mid-1953.

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Czechoslovakia, Hungary, and East Germany all have failed to reach their original 1954 targets, and have therefore reduced further their goals for 1954. Poland, which reported overfulfillment of its plan for the first six months, appears to be making the most progress, although failure of coal production to increase as scheduled is upsetting its foreign trade plans. The general Satellite effort to increase trade with non-Orbit nations has made little progress, with trade during 1954 only slightly about the level attained in 1953.

Despite these shortcomings, all the Satellites have announced gains averaging about 15 to 20 percent over 1953 in production and distribution of manufactured consumers' goods. These gains were not sufficient, however, to offset the shortfalls of heavy industry. Most of the Satellites failed to reach coal or electric power production goals, and several Satellites failed to reach either goal. Coal and power shortages probably will plague most of the Satellites during the coming winter.

The situation in Hungary, although more serious than elsewhere, illustrates the difficulties facing the Satellite regimes. Even after the reduction of its plan goals, coal and steel production are lagging. Unemployment, theoretically impossible in a socialist society, has reached 200,000 because of the failure of the regime to prepare an adequate plan to absorb the white collar workers dismissed from the ministries and industry. An official spokesman has admitted that productivity is down, production costs are up, wages have been increased and prices reduced, and that there is a real danger of inflation, which has been averted thus far only by the admittedly temporary expedient of living off inventories.

Among causes of Satellite industrial failures is the failure of the regimes to formulate detailed plans prior to the actual beginning of the new course and its annual economic program. Officials committed the basic error of vastly overestimating the ability to shift the focus of individual Satellite economies in so short a time. As a result events were continually overtaking the regimes, forcing them to alter plans as they went along, placing an almost intolerable burden on the planning organizations. Other elements contributing to severe economic shortcomings, frequently admitted by the regimes, are material shortages, poor distribution, faulty management, and labor apathy. Efforts to combat the latter factor, long a serious problem throughout the Satellites, have met with little or no success. Absenteeism, excessive production costs and shoddy workmanship may actually have been aggravated in some areas of the economy by the new economic programs.

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East Germany: a special case:

Since the riots of June 1953, the East German Communist regime has had moderate success in strengthening its authority and placating the rebellious population. Hatred of the regime, however, continues to be widespread.

The principal reason for the lack of overt expressions of opposition is the fear of retaliation and punishment. This fear has been strengthened by the proven hopelessness of attempting a revolt, as well as by the improvement in the government's security controls. The physical controls exercised by the security police and East Germany's military forces are stronger as a result of better organization, equipment, and increased reliability. The principal leaders who were capable of arousing and organizing acts of opposition have to a large degree been ferreted out and arrested; hence they are no longer available to direct the latent feelings of resentment against the Communists.

Popular resistance has been lulled by improved living conditions. The regime has made a strong effort to supply more food and consumers' goods to the population, and the resulting slight improvement has contributed to a lessening of the desperation that led to the attempted revolt of June 1953.

An effort has also been made to create the appearance of benevolence and indestructibility of the regime by permitting greater freedom of movement under circumstances that suggest that the government feels it has the situation well under control. Just ten days before the anniversary of the June riots, the regime felt strong enough to permit the holding of a giant youth rally that had the potentialities of antiregime demonstrations. In addition, many of the formerly restricted areas in East Germany have been opened to the public.

The East German army, development of which was temporarily in abeyance after the June 1953 riots, is now closer to being an effective military force than at any time since its establishment. [redacted] 25X1 25X1 [redacted] The deployment of divisions as units in the course of field training was observed for the first time in the East German army in the summer of 1954. Since mid-1953 the last remaining cadre units have been combined into tactical formations. There are now two corps and seven divisions (including three mechanized) which closely follow Soviet T/O&E. The discharge of 18,000 to 20,000 men

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suspected of being unreliable or unfit in the summer of 1953 and their replacement by carefully screened recruits has improved the reliability of the force. In contrast to the ground forces, the air force has not yet made up the ground lost after the June 1953 riots. The East German navy continues to be a coastal patrol with negligible combat operations.

The government's stability has been further enhanced by the sovereignty granted by the Soviet Union in the protocol of 26 March 1954. However, the regime is still completely dependent on the backing of the Soviet forces for its existence. The protocol was followed by several practical measures of implementation, such as the reduction in scope and size of the Soviet high commission, the abolition of most of the occupation laws, and the extension of independent East German activities in the Western world. In addition, greater emphasis is being placed on the role of the Soviet ambassador in Berlin, accompanied by a deemphasis of that of the high commissioner in an effort to depict East Germany as a nation enjoying normal diplomatic relations with the USSR.

While the question of diplomatic status is no problem in the Soviet bloc, East Germany has had no success in obtaining recognition in the Western world. The cloak of sovereignty has been assured to a small degree by stamping the passports of travelers who enter the country, by issuing visas, and by establishing in certain Western capitals official trade missions which give the impression of governmental representation, though they do not have diplomatic status.

When the Soviet Union ostensibly gave up a portion of its control of East Germany, the Socialist Unity Party (SED) assured the continuity of Communist authority. The SED supervises the work of the administration through its system of political offiers in all fields of government and the economy. However, Soviet authorities still have the statutory right to assume full control of the country at any time. In the meantime, certain Soviet controls continue through a system of advisers on all levels, the secret police, and the supervision of the economy exercised either directly or through the Council of Mutual Economic Assistance.

In the cold war struggle, East Germany serves as a bridge between the Soviet and Western worlds across which the USSR hopes to reach out and subvert the West German republic and as much more of non-Communist Europe as possible. To this end, East Germany is being promoted as an independent nation competent to deal with other countries at the conference

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table. The Soviet Union is attempting to create the impression that full freedom and desirable living conditions exist in East Germany, thereby attempting to convince Western nations that there is no reason why they should not take up relations with this state.

Military

Military developments in the Satellites during 1954 have been characterized by attempts to improve combat forces qualitatively through expanded training programs and weapons modernization. Both personnel strength and budget allocations have been stabilized at approximately the 1953 level. The "new course" economic policies do not appear to have adversely affected the morale of Satellite military personnel, with the possible exception of officers of the Rumanian army who suffered severe pay cuts early in the year.

Aggregrate strength of the Satellite ground forces, exclusive of militarized security forces, has apparently been stabilized at an estimated 1,115,000. In several countries, the stabilization process has entailed minor strength reductions. With the exception of the East German and possibly the Rumanian forces, which are expected to expand sharply, the various Satellite armies probably have attained nearly their maximum peace-time strength levels.

This leveling-off has been reflected in the announced annual budget allocations for defense. Only two countries, Czechoslovakia and Poland, announced planned military expenditures greater than those of the previous year, and these two increases were minor, 8 percent and 6 percent respectively. Minor reductions were planned for Bulgarian forces (-6.9 percent), a 13.9 percent decrease was scheduled in Hungary, and Rumania reduced expenditures by more than one third. In direct contrast, announced allocations for the military in 1952 and 1953 represented, in all cases except Albania, major increases over the previous year's expenditures, ranging in 1952 from 43.9 percent in Hungary to 94.2 percent in Bulgaria, and in 1953 from 25.4 percent in Hungary to 85.8 percent in Czechoslovakia.

Training programs in Eastern Europe exhibited considerable advancement: East German divisions were deployed as units for the first time during summer field training; the Polish and Czechoslovak armies reached division and possibly corps-level maneuvers in the early fall; the Hungarian army also stepped up training activities, and the Bulgarians maintained their

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previously high level of training activity.

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Further evidence of increased emphasis on qualitative improvement and combat efficiency of the armed forces was the replacement, during the past year and a half, of five of the six Soviet military attachés in the Satellites. The new attachés apparently are able men, with more extensive combat experience than their predecessors. Their appointment will probably result in improving the efficiency of the Satellite military forces.

Perhaps the most dramatic advancement in capabilities has taken place in the Satellite air forces. Jet fighter strength has grown from approximately 300 in 1952 to more than 1,000 in 1954. MIG-15 production in Czechoslovakia has enabled the re-equipping of the Czech fighter units and deliveries to most of the other Satellites. Poland, which last year became the first Satellite to receive jet bombers (40-IL-28's), has also begun the production of MIG's.

The Soviet-Satellite air defense program has progressed considerable.

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